International Accounting Standard 19

Employee Benefits

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INTRODUCTION

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IN1 IAS 19 *Employee Benefits* prescribes the accounting and disclosure by employers for employee benefits. The Standard does not deal with reporting by employee benefit plans (see IAS 26 *Accounting and Reporting by Retirement Benefit Plans*).

IN2 The Standard identifies four categories of employee benefits:

(a) short-term employee benefits, such as the following (if expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services): wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;

(b) post-employment benefits such as retirement benefits (eg pensions and lump sum payments on retirement), post-employment life insurance and post-employment medical care;

(c) other long-term employee benefits, such as long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits; and

(d) termination benefits.

IN3 The Standard requires an entity to recognise short-term employee benefits when an employee has rendered service in exchange for those benefits.

IN4 Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans. The Standard gives specific guidance on the classification of multi-employer plans, state plans and plans with insured benefits.

IN5 Under defined contribution plans, an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The Standard requires an entity to recognise contributions to a defined contribution plan when an employee has rendered service in exchange for those contributions.

IN6 All other post-employment benefit plans are defined benefit plans. Defined benefit plans may be unfunded, or they may be wholly or partly funded. The Standard requires an entity:

(a) to account not only for its legal obligation, but also for any constructive obligation that arises from the entity's practices.

(b) to determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.

(c) to use the projected unit credit method to measure its obligations and costs.

(d) to attribute benefit to periods of service under the plan's benefit formula, unless an employee's service in later years will lead to a materially higher level of benefit than in earlier years.

(e) to use unbiased and mutually compatible actuarial assumptions about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries, changes in medical costs and particular changes in state benefits). Financial assumptions should be based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled.

(f) to determine the discount rate by reference to market yields at the end of the reporting period on high quality corporate bonds (or, for currencies in which there is no deep market in such high quality corporate bonds, government bonds denominated in that currency) of a currency and term consistent with the currency and term of the post-employment benefit obligations.

(g) to deduct the fair value of any plan assets from the carrying amount of the obligation in order to determine the net defined benefit liability (asset). Some reimbursement rights that do not qualify as plan assets are treated in the same way as plan assets, except that they are presented as a separate asset, rather than as a deduction from the obligation.

(h) to limit the carrying amount of a net defined benefit asset so that it does not exceed the economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

(i) to recognise all changes in the net defined benefit liability (asset) when they occur, as follows:

  (i) service cost and net interest in profit or loss; and

  (ii) remeasurements in other comprehensive income.

IN7 Employee benefits other than short-term employee benefits, post-employment benefits and termination benefits are other long-term employee benefits. For other long-term employee benefits, the Standard requires the same recognition and measurement as for post-employment benefits but all changes in the carrying amount of liabilities for other long-term employment benefits are recognised in profit or loss. The Standard does not require specific disclosures about other long-term employee benefits.

IN8 Termination benefits are employee benefits payable as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. An entity is required to recognise termination benefits at the earlier of when the entity can no longer withdraw an offer of those benefits and when it recognises any related restructuring costs.

